

Southend-on-Sea Borough Council

Agenda
Item No.

Report of Corporate Management Team
to
Cabinet
on
11 February 2016

Report prepared by: Joe Chesterton
Head of Finance and Resources

Capital Programme 2016/17 to 2019/20

All Scrutiny Committees

Executive Councillor: Councillor Woodley

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 The purpose of this report is for Members to consider a proposed programme of capital projects for 2016/17 to 2019/20 that can be submitted to Council for approval.

2. Recommendation

That the Cabinet recommend to Council that it:

- 2.1 Note the current approved Programme for 2016/17 to 2018/19 of £129.6m (Appendix 1);
- 2.2 Approve the changes to the approved Programme as set out in Appendix 2;
- 2.3 Consider and approve the proposed new schemes and additions to the Capital Programme for 2016/17 to 2019/20 totalling £52.7m of which £44.7m is for the General Fund and £8.0m for the Housing Revenue Account (Appendices 6 and 7);
- 2.4 Note that the proposed new schemes and additions (Appendices 6 and 7) and other adjustments (Appendix 2) will result in a proposed capital programme of £188.1m for 2016/17 to 2019/20 (Appendix 8);
- 2.5 Note that, of the total programme of £188.1m for the period 2016/17 to 2019/20, the level of external funding supporting this programme is £65.0m (paragraph 9.1);
- 2.6 Note that a final review has been undertaken on the 2015/16 projected outturn and that the results have been included in this report;

2.7 Approve the proposed Capital Programme for 2015/16 to 2019/20 (Appendix 8).

3. Background

- 3.1 The Council is required to review its capital spending plans each year and set a Capital Programme. A key consideration when setting the programme is the projected level of available capital resources.
- 3.2 A variety of resources are available to local authorities to fund capital investment. The primary one is borrowing and the Council has to borrow in order to fund any additional commitments that are not funded from external sources. The Medium Term Financial Strategy has set aside revenue funding to enable the Council to fund borrowing over the period from 2016/17 to 2019/20. The purpose of this funding is to complement other sources of funding, such as external grants, to enable the Council to deliver an ambitious capital programme that supports its objectives.
- 3.3 A second source of funding is capital receipts which arise from the sale of assets such as surplus land and the sale of council dwellings. The Council's approach to property disposals is geared to reflect members' requests to ensure that, wherever possible, assets are used to generate revenue, with freehold disposals being a last option. This recognises the Council's increasing revenue pressures but the impact of this approach is that a much lower level of capital receipts is delivered.
- 3.4 A third source of funding is capital grants, or external funding, issued by Government departments and agencies, which are often allocated on a competitive bidding basis for specified purposes. Many of these require local authorities to make a financial commitment through match funding and to the on-going running costs of the schemes.
- 3.5 Capital expenditure is defined as expenditure incurred on the enhancement, acquisition or creation of assets needed to provide services, such as houses, schools, vehicles etc. This is in contrast to revenue expenditure which is spending on the day to day running costs of services such as employee costs and supplies and services. Capital grants, borrowing and capital receipts can only be spent on capital items and cannot be used to support the revenue budget. However, it should be noted that revenue funding can be used to support capital expenditure.
- 3.6 Under the Local Government Act 2003 each authority can determine how much it can borrow within prudential limits (unsupported borrowing). The Government does have powers to limit the aggregate sum for authorities for national economic reasons, or for an individual authority.
- 3.7 Unsupported borrowing is not specifically financed by capital grant and no longer as a separate stream in the Government revenue grant. However, the Council has full discretion on how it allocates its main Government grant funding. Therefore, any unsupported borrowing undertaken is financed from the total available resources to the Council from both Government grant and Council Tax.

4. Capital Programme Planning

4.1 An important part of planning is for the Council to have a Capital Strategy and Corporate Asset Management Strategy in place. In addition, there are other service capital plans that are required by Government departments and they need to link clearly to the overall Capital Strategy and Corporate Asset Management Strategy.

4.2 The authority's Capital Strategy is updated on an annual basis and is approved alongside the Capital Programme. A review of the Capital Strategy has been undertaken and this is attached at Appendix 9.

4.3 The Capital Strategy is an over-arching policy document which relates to investment in services and describes how the deployment and redistribution of capital resources contributes to the achievement of corporate goals. The overarching objectives for the Capital Strategy are as follows:

- Successfully deliver a Capital Programme which is consistent with the Council's key priorities;
- Maximising external funding to support the delivery of the Capital Programme consistent with the Council's key priorities, both from the private sector and through Government grant funding;
- Maximising the utilisation of the Council's assets by:
 - Ensuring that all investment properties are making sufficient returns;
 - Ensuring that non-profitable investment properties and assets surplus to requirements are disposed of as efficiently as possible;
 - Monitoring the utilisation of assets on a regular basis.

4.4 The Capital Strategy and the Corporate Asset Management Strategy are integral to the Council's future capital investment planning process. The Capital Strategy links policies and priorities to capital investment and provides a framework for the operational work of asset management. The Corporate Asset Management Strategy, which covers all of the Council's assets, provides essential information in determining capital investment needs.

4.5 The Corporate Asset Management Strategy was comprehensively reviewed and updated for the period 2015 – 2025 and was approved at the Cabinet meeting in September 2015. The amendments to the plan included:

- Revisions to give the Corporate Asset Management Strategy a high level strategic focus to enable flexibility over the plan period and to reinforce the current Vision and Strategic Aims that all the Council's assets are corporately held and managed strategically to:
 - Support efficient and effective service delivery;
 - Support regeneration and development and enable the Council to achieve its objectives;
 - Rationalise, develop and improve the portfolio to underpin the capital programme and revenue budget through development, income generation, property acquisition and disposals;

- Actively support co-location and integration with other public-sector partners.

4.6 In addition, each year the Council agrees a Treasury Management Strategy and prudential borrowing indicators that includes identifying how planned capital investment is to be funded. This Strategy and indicators are included in a separate report elsewhere on this agenda.

4.7 The formulation of the 2016/17 to 2019/20 Capital Programme has taken account of the Council's Capital Strategy and Corporate Asset Management Strategy and consequently capital schemes are assessed and approved on the basis of this strategy.

5 Capital Accounting Arrangements

5.1 The enabling legislation for the current capital regime is set out in the Local Government Act 2003 which came into force on the 1 April 2004. Since this date, authorities have been empowered with greater freedoms to borrow than under the previous system, providing they can meet the revenue costs of the borrowing and the running costs of the resultant capital scheme.

The capital system provides for an integrated approach to capital investment decision making with an authority having to take account of the following when setting its prudential indicators:

- Affordability;
- its asset management plans;
- the implications of external borrowing;
- Value for money through options appraisal and its strategic plans.

The aim is to bring together revenue and capital resources to meet service delivery objectives.

5.2 Instead of the use of credit approvals under the previous capital control system, the current system places reliance on a series of prudential indicators that must be determined by each local authority for the forthcoming year and the following two years. These indicators assist Council's in determining an appropriate level of borrowing and to provide benchmarks against which they can monitor their borrowing levels.

5.3 In simple terms the Council is now able to borrow at whatever levels it feels are necessary so long as any borrowing is prudent, affordable and sustainable.

5.4 The prudential guidelines require the Council to set out various indicators on its capital plans, investments and projected Council Tax increases.

5.5 New capital expenditure plans proposed in Appendices 6 and 7 along with previously approved capital investment plans, require the Council to externally borrow approximately £49m (£30m net of invest to save schemes) over the period 2016/17 to 2019/20. This level of borrowing is driven by the capital programme.

6. Capital Programme 2015/16 to 2018/19 - Movements

- 6.1 The Council's current agreed capital programme for 2015/16 to 2018/19 is attached as Appendix 1 and totals £179.4m.
- 6.2 Movements and proposed new schemes and additions since the agreement of the revised programme at Cabinet in November 2015 have an overall effect of increasing the capital programme by nearly £48m to £227.3m for the period 2015/16 to 2019/20 and are set out in Appendix 2, with more detail in Appendices 3 to 7.

7. Spending Plans 2016/17 to 2019/20

The proposed new schemes and additions to the Capital Programme for 2016/17 to 2019/20 of £52.7m are set out in Appendix 6, with the details of each scheme and its funding explained in Appendix 7.

The key areas of investment and funding for the Council are identified in the sections below.

7.1 Education

- 7.1.1 In January 2015 the Government confirmed the Education Maintenance Capital allocations, Basic Needs Grant and Devolved Formula Capital (DFC) for 2015/16 and gave an indication that the same level of grant would be available for 2016/17 and 2017/18, subject to downwards adjustments as more schools convert to academy status.

The grant funding was confirmed as follows:

- £2.18 million of basic need funding to provide school places to be paid over three years from 2015/16 to 2017/18 with £1.14 million paid in 2017/18;
- £1.97 million of Maintenance Capital to support the needs of the schools we maintain and for the Sure Start children's centres;
- £0.335 million of Devolved Formula Capital for schools;

- 7.1.2 All of these allocations will be delivered as capital grant. A further announcement of updated grant awards is expected in late February 2016.

- 7.1.3 The education capital programme for 2016/17 onwards will continue to be dominated by the need to provide more school places to cope with the rising pupil numbers.

- 7.1.4 £5.76 million of Basic Need projects that were given funding approval in 2013/14 are almost complete. The outstanding schools are St Helen's Primary School and St Mary's Primary School.

- 7.1.5 The focus on additional places will mean that expenditure on condition schemes will again be limited, with approximately £1.2 million being allocated in 2016/17 to new high priority condition items at schools and children's

centres, which if not done could result in a closure. The replacement of boilers, curtain walling and rewiring continues to dominate.

- 7.1.6 Following the three year indicative funding award, the Heads Asset Management Group agreed a draft three year maintenance programme to allow schools to plan ahead. The full list of possible maintenance projects could extend the overall programme by a further £3.5 million and the longer these projects are not addressed, the greater the risk of having to undertake emergency projects during the year.
- 7.1.7 Government funding is not ringfenced and Southend, like many other authorities, will be spending more on Basic Need than the awarded grant.
- 7.1.8 The devolved formula capital allocations to schools are expected to continue into future years at the lower level set in 2012/13. This will continue to put pressure on any central programme with schools unable to address larger condition issues.
- 7.1.9 The income received from Central Government for maintenance will continue to reduce in relation to the increase in the number of academies. Academies are able to bid into a central pot directly to the Department for Education (DfE) for capital funding. However, the Basic Need funding to Councils does include expansion at academies and the Government would expect the Council to fund capital works for any new academy arising from a Basic Need requirement.
- 7.1.10 A proposed addition to the education capital programme is a scheme of £8,000,000 to ensure the Council meets its duty to provide sufficient school places from September 2017 and 2018. The scheme includes £3million for the conversion of PROCAT and Wentworth. The rest of the scheme would include partial expansion of an existing school(s) to meet rising year 7 numbers and subsequent years would be part of a wider expansion programme. Corporate funding is required to meet any shortfall in Education Funding Agency grant for basic need. This scheme is in addition to the £10,000,000 budget already in the approved capital programme, funded from corporate borrowing.

7.2 Housing

- 7.2.1 As part of the HRA Land Review project it was agreed that officers should investigate a phased approach to the housing development on Council owned land. The project is currently underway and planning permission was received in April for the proposed sites. The plan is to construct 18 housing units within the Shoeburyness ward with an anticipated start date in early 2016 with a total budget of £2,808,000.
- 7.2.2 The Housing Revenue Account (HRA) capital programme for the 2016/17 financial year is £10,273,000 which comprises mainly Decent Homes work to the Council's housing stock including kitchen and bathroom modernisations together with health and safety works. This also includes a budget of £2,608,000 for the construction of new housing on HRA land as included above and £345,000 for some remodelling works to sheltered housing schemes.

- 7.2.3 The sheltered housing review has been commissioned and the outcome of the review will be available during 2016/17. The resulting programme of works will inform the future capital programme.
- 7.2.4 The overall capital programme for the next four financial years 2016/17 to 2019/20 includes a commitment of at least £7.5 million each year for major repairs and Decent Homes work to the Council's housing stock.

7.3 Highways and Transportation

- 7.3.1 The expenditure will be delivered mainly by fully un-ringfenced capital grants.
- 7.3.2 The settlement is as follows:

	2016/17 £'000	2017/18 £'000
Integrated Transport	1,401	1,401
'Needs Based' Highways Capital Maintenance Block	1,277	1,238

In addition, for the financial years 2018/19 – 2020/21 the following indicative allocations have been announced:

	2018/19 £'000	2019/20 £'000	2020/21 £'000
Integrated Transport	1,401	1,401	1,401
'Needs Based' Highways Capital Maintenance Block	1,121	1,121	1,121

- 7.3.3 The allocations for the Integrated Transport Block (ITB) 2018/19 to 2020/21 are indicative and are subject to review. The Department for Transport intend to refresh the data in April 2017 and then announce confirmed allocations.
- 7.3.4 Following the Autumn Statement 2015, the Government have confirmed the indicative Local Growth Fund allocations that were made through Growth Deals and that Local Enterprise Partnerships will continue to receive core funding from Central Government matched by local areas. A further £100m per year will be available for the Accessibility Fund, £80m of which will be for revenue.
- 7.3.5 The Government has also set up a 'Challenge Fund' for local authorities to bid for major highways maintenance projects that could include bridges, carriageways, footways, drainage and street lighting. The Council was successful in bidding in the first round for the street lighting LED project. There will be a second round of funding through this route in 2017/18. This forms part of the incentivising capital maintenance projects based upon 'banding'. The additional amount within the formula element for the maintenance block could be between £70k and £77k for 2016/17 and £70k and £116k for 2017/18.
- 7.3.6 The Government also announced £475m of new funding to support construction of large transport projects, a £250m pothole action fund, £300m for cycling and continued funding of Bikeability.

7.3.7 To allow the full delivery of the 2016/17 Local Transport Plan (LTP) programme, the full spend is proposed to be met 100% by capital grant.

- Typical schemes are presented in the context of four 'Actions' as set out in the Local Transport Plan (LTP3) Implementation Plan: 2015/16 – 2020/21.
- The recommended allocation to the 'Actions' is set out in Appendix 5a. The Director for Place will progress a prioritised list of schemes for both Integrated Transport and Highways Maintenance in consultation with the Portfolio Holder for Public Protection, Waste and Transport and the Head of Finance and Resources. This includes a list of schemes developed by the Traffic and Parking Working Party and Members requests.
- The prioritisation process is set out in Diagram 1 of the Implementation Plan. In addition, maintenance schemes will be progressed using the latest information from the Gaist Asset Management work.
- As in previous years, there is flexibility to allocate funding between the two blocks and the LTP actions.

7.4 Other Services

7.4.1 In respect of the other proposed general fund schemes these are to be funded through borrowing, grants and from earmarked reserves and the required relevant borrowing costs have been factored into the Medium Term Financial Strategy.

7.4.2 The other proposed general fund schemes encompass the following key themes:

- Reconstruction and enhancement of the Library car park;
- Redevelopment of the Civic Centre East car park;
- A budget provision to grow a commercial property investment portfolio;
- A budget provision to acquire Queensway commercial properties as opportunities arise as part of the Better Queensway regeneration project;
- Cemeteries and crematorium infrastructure and income generation schemes;
- Upgrade and modernisation of the ICT core infrastructure;
- ICT schemes in support of business transformation;
- Refurbishment of the Council's core property stock to deliver a planned condition programme;
- Non-structural condition works on the pier;
- Reinstatement and stabilisation works to the Belton Hills steps;
- A gateway review for the new museum;
- Energy efficiency and solar PV projects.

8. Capital Programme 2015/16 to 2019/20

- 8.1 The Council's proposed capital programme for 2015/16 to 2019/20 is attached as Appendix 8, which includes all of the adjustments identified in the other appendices.
- 8.2 The proposed capital programme represents a significant investment of £188m on the part of the Council in the Southend area over the 4 year period 2016/17 to 2019/20 and the projected investment in 2016/17 alone amounts to over £73m (General Fund £63m and Housing Revenue Account £10m).

9. Funding the capital programme

- 9.1 The proposed capital programme presented in this report is currently fully funded and has been prepared based on the level of borrowing the Council can support, notified capital grants, prudent assumptions over the level of other grants and the timing and valuation of capital receipts (from the sale of existing surplus Council assets) that will be realised.

The proposed funding for the programme is as follows:

Type of funding:	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	Total £m
External funding – capital grant	17.7	17.4	14.0	12.8	61.9
External funding – third party contributions	2.4	0.6	0.1	-	3.1
Capital Receipts	2.1	0.9	1.0	-	4.0
Major Repairs Reserve (Housing Revenue Account)	7.3	7.5	7.8	8.0	30.6
General Fund earmarked reserves/Revenue contributions	8.7	0.2	0.1	-	9.0
Borrowing (external and internal)	35.2*	27.3	11.4	5.6	79.5
	73.4	53.9	34.4	26.4	188.1

* This relates to both internal and external borrowing. In respect of 2016/17 external borrowing is estimated to be in the order of £24 million (of which £10 million relates to invest to save schemes).

- 9.2 The financing of the capital programme will continue to be supported where possible by the generation of capital receipts from the sale of surplus Council assets. Since 2011, the Council's approach to property disposals has been geared to reflect members' requests to ensure that, wherever possible, assets are used to generate revenue, with freehold disposals being a last option. This recognises the Council's increasing revenue pressures whilst still delivering a modest programme of capital receipts. The impact of this approach is that a much lower level of capital receipts is delivered meaning a greater reliance on borrowing and external funding to fund the Capital Programme.

- 9.3 When the Council enters into Prudential Borrowing to fund Capital expenditure, there is a revenue impact and therefore an increase to the Councils budget requirement. As an indicative guide to the revenue consequence, there is a cost of approximately £80k for every £1m borrowed or if £8m is borrowed this would equate to an increase in Council Tax of around 1%.
- 9.4 The full impact of borrowing costs associated with the funding of the proposed programme has been included in the Council's current financial planning for 2016/17 to 2019/20. The 2016/17 revenue budget elsewhere on this agenda incorporates the required borrowing costs budget requirement for 2016/17.
- 9.5 In summary, it is the Chief Financial Officer's view that the 2016/17 to 2019/20 proposed Capital Programme is Prudent, Affordable and Sustainable.

10. Other Options

- 10.1 The proposed Capital Programme is compiled from a number of individual projects, any of which can be agreed or rejected independently of the other projects.

11. Reasons for Recommendations

- 11.1 The proposed Capital Programme is compiled from a number of individual projects which either contribute to the delivery of the Councils objectives and priorities or enhances the Councils infrastructure.

12. Corporate Implications

- 12.1 Contribution to Council's Vision & Corporate Priorities

The projects directly contribute to the delivery and achievement of the Councils Corporate Priorities.

- 12.2 Financial Implications

As set out in the report.

- 12.3 Legal Implications

None at this stage.

- 12.4 People Implications

None at this stage.

- 12.5 Property Implications

The Capital Strategy and Corporate Asset Management Strategy (CAMS) sets out the approach to disposals that will affect the Council's property holdings,

assets and liabilities. The Strategy and CAMS reflect the implications of the agreed Capital Programme.

12.6 Consultation

The draft budget approved at Cabinet on 19 January 2016 has been presented to all three Scrutiny Committees and the Business Sector Consultation and Voluntary Sector Consultation meetings. The feedback from each of these scrutiny bodies is as follows:

- Place Scrutiny Committee offered no comments on the draft Capital Programme 2016/17 to 2019/20 or the proposed new schemes and additions contained therein, in respect of their areas of responsibility;
- People Scrutiny Committee sought clarification on a few of the capital programme items in respect of their areas of responsibility namely:
 - how Adult Social Care capital schemes are financed;
 - the total expenditure and the profile of spend for the Local Authority Trading Company;
- Policy and Resources Scrutiny Committee sought clarification on a few of the capital programme items in respect of their areas of responsibility namely:
 - Borrowing levels with the overall capital programme;
- The Business Sector consultation meeting either offered no comments on the draft Capital Programme 2016/17 to 2019/20 or the proposed new schemes and additions contained therein, in respect of their areas of responsibility;
- The Voluntary Sector consultation meeting either offered no comments on the draft Capital Programme 2016/17 to 2019/20 or the proposed new schemes and additions contained therein, in respect of their areas of responsibility;

12.7 Equalities and Diversity Implications

Assessments have been carried out for all capital investment proposals where appropriate.

12.8 Risk Assessment

All capital projects are delivered using best practice project management tools as appropriate. This requires a full risk assessment and management review to be carried out.

The programme includes an appropriate sum within each project to cover build risk and claims.

12.9 Value for Money

All projects are required to follow and adhere to procurement guidance issued by the Council. They must also comply with procedure rules for entering into and managing contracts with suppliers.

12.10 Community Safety Implications

Assessments have been carried out for all capital investment proposals where appropriate.

12.11 Environmental Impact

Assessments have been carried out for all capital investment proposals where appropriate.

13. Background Papers

13.1 Corporate Asset Management Strategy 2015-2025:

http://www.southend.gov.uk/downloads/file/2074/corporate_asset_management_strategy_2015-2025

14. Appendices

Appendix 1 – Approved Capital Programme November 2015

Appendix 2 – Changes to Approved Capital Programme

Appendix 3 – Virements Between Approved Schemes

Appendix 4 – Re-profiles Between Years

Appendix 5 – New External Funding

Appendix 5a – LTP3 – Capital Actions and Allocations

Appendix 5b – Highways Capital Programme 2016/17

Appendix 6 – Proposed New Schemes and Additions to the Capital Programme

Appendix 7 – Proposed New Schemes and Additions - descriptions

Appendix 8 – Amended Capital Programme 2016/17 to 2019/20 (2015/16 shown for information)

Appendix 9 – Capital Strategy 2016/17 to 2019/20